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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-95227; File No. SR-MIAX-2022-25]

### **Self-Regulatory Organizations; Miami International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Exchange Rule 532, Order and Quote Price Protection Mechanisms and Risk Controls**

July 8, 2022

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 29, 2022, Miami International Securities Exchange, LLC (“MIAX Options” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) a proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### **I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change**

The Exchange is filing a proposal to amend Exchange Rule 532, Order and Quote Price Protection Mechanisms and Risk Controls.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

The text of the proposed rule change is available on the Exchange's website at <http://www.miaxoptions.com/rule-filings/> at MIAX Options' principal office, and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend Exchange Rule 532, Order and Quote Price Protection Mechanisms and Risk Controls, to (i) extend existing price protections to sell limit orders and Offer eQuotes for certain complex order spread strategies; (ii) make minor non-substantive edits to clarify existing rule text; and (iii) make non-substantive edits to correct numbering errors.

Background

Currently the Exchange offers three defined complex order spread strategies: Butterfly Spread, Calendar Spread, and Vertical Spread. A Butterfly Spread is a three legged Complex Order with two legs to buy (sell) the same number of calls (puts) and one leg to sell (buy) twice the number of calls (puts), all legs have the same expiration date but different exercise prices, and the exercise price of the middle leg is between the

exercise prices of the other legs. The strike price of each leg is equidistant from the next sequential strike price.<sup>3</sup> A Calendar Spread is a complex strategy consisting of the purchase of one call (put) option and the sale of another call (put) option overlying the same security that have different expirations but the same strike price.<sup>4</sup> A Vertical Spread is a complex strategy consisting of the purchase of one call (put) option and the sale of another call (put) option overlying the same security that have the same expiration but different strike prices.<sup>5</sup>

For each of the aforementioned strategies the Exchange offers a price protection. The Exchange will determine a Butterfly Spread Variance (“BSV”) which establishes the minimum and maximum trading price limits for Butterfly Spreads.<sup>6</sup> The minimum possible trading price limit of a Butterfly Spread is zero minus a pre-set value.<sup>7</sup> The maximum possible trading price limit of a Butterfly Spread is the absolute value of the difference between the closest strikes (the upper strike price minus the middle strike price or the middle strike price minus the lower strike price) plus a pre-set value.<sup>8</sup>

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<sup>3</sup> See Exchange Rule 532(b)(1)(i).

<sup>4</sup> See Exchange Rule 532(b)(1)(ii).

<sup>5</sup> See Exchange Rule 532(b)(1)(iii).

<sup>6</sup> See Exchange Rule 532(b)(2).

<sup>7</sup> The pre-set value used by the Exchange is \$0.10. See MIAX Options Exchange Regulatory Circular 2022-16, MIAX Order Price Protection Pre-set Values (March 4, 2022) available at [https://www.miaxoptions.com/sites/default/files/circular-files/MIAX\\_Options\\_RC\\_2022\\_16.pdf](https://www.miaxoptions.com/sites/default/files/circular-files/MIAX_Options_RC_2022_16.pdf).

<sup>8</sup> See Exchange Rule 532(b)(2)(i).

The Exchange will determine a Calendar Spread Variance (“CSV”) which establishes a minimum trading price limit for Calendar Spreads.<sup>9</sup> The maximum possible value of a Calendar Spread is unlimited, thus there is no maximum price protection for Calendar Spreads. The minimum possible trading price limit of a Calendar Spread is zero minus a pre-set value.<sup>10</sup>

The Exchange will determine a Vertical Spread Variance (“VSV”) which establishes minimum and maximum trading price limits for Vertical Spreads.<sup>11</sup> The maximum possible trading price limit of the VSV is the difference between the two component strike prices plus a pre-set value. For example, a Vertical Spread consisting of the purchase of one January 30 call and the sale of one January 35 call would have a maximum trading price limit of \$5.00 plus a pre-set value. The minimum possible trading price limit of a Vertical Spread is always zero minus a pre-set value.<sup>12</sup>

#### Proposal

The Exchange now proposes to extend the price protections for each of the aforementioned complex order spread strategies. Specifically, the Exchange proposes to amend subparagraph (iii) of the Butterfly Spread Variance (“BSV”) Price Protection.<sup>13</sup> Currently, the first sentence of subparagraph (iii) provides that, “[b]uy orders with a limit price of less than the minimum trading price limit will be rejected.” The Exchange now proposes to also reject sell limit orders and Offer eQuotes with a limit price less than the

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<sup>9</sup> See Exchange Rule 532(b)(3).

<sup>10</sup> See Exchange Rule 532(b)(3)(i).

<sup>11</sup> See Exchange Rule 532(b)(4).

<sup>12</sup> See Exchange Rule 532(b)(4)(i).

<sup>13</sup> See Exchange Rule 532(b)(2).

minimum trading price limit. As proposed the new sentence will read, “[b]uy orders, sell orders, and Offer eQuotes with a limit price less than the minimum trading price limit will be rejected.” This change provides that the Exchange will not permit orders or eQuotes to be submitted into the System<sup>14</sup> that appear to be erroneously priced because the prices are below the minimum trading price limit established by the Exchange for Butterfly Spread strategies.

The Exchange recently adopted Butterfly Spread Variance (“BSV”) Price Protection functionality on the Exchange.<sup>15</sup> The Exchange determines a Butterfly Spread Variance which establishes minimum and maximum trading price limits for Butterfly Spreads.<sup>16</sup> The minimum value of a Butterfly Spread is zero and the maximum value is capped at the absolute value of the difference between the closest strikes (the upper strike price minus the middle strike price or the middle strike price minus the lower strike price). To establish the maximum and minimum trading price limits, a pre-set value of \$0.10<sup>17</sup> is added to the maximum value of the Butterfly Spread and subtracted from the minimum value of the Butterfly Spread. After establishing the minimum trading price limit the Exchange is able to evaluate orders and eQuotes for reasonableness as related to the minimum trading price limit. As such, sell limit orders and Offer eQuotes with a

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<sup>14</sup> The term “System” means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

<sup>15</sup> See Securities Exchange Act Release No. 94353 (March 3, 2022), 87 FR 13339 (March 9, 2022) (SR-MIAX-2021-58) (Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment Nos.1 and 2, To Adopt Exchange Rule 532, Order and Quote Price Protection Mechanisms and Risk Controls).

<sup>16</sup> See Exchange Rule 532(b)(2)(i).

<sup>17</sup> See supra note 7.

price below the minimum trading price limit will be rejected back to the Member<sup>18</sup> for reevaluation.

Example 1A (current behavior)

Butterfly Spread: Buy 1 July 50 Call, Sell 2 July 55 Calls, Buy 1 July 60 Call.

The maximum spread value is the absolute value of the difference between the closest strikes or \$5.00 (60.00 - 55.00 or 55.00 - 50.00). The minimum spread value is zero.<sup>19</sup>

The pre-set value is \$0.10. Therefore, the maximum allowable price limit is then \$5.10 (\$5.00 + \$0.10) and the minimum allowable price limit is then -\$0.10 (\$0.00 - \$0.10).

A sell limit order or an Offer eQuote submitted with a price below the minimum trading price limit will be accepted and will trade down to, and including, the minimum trading price limit. Remaining interest will then be placed on the Strategy Book and managed to the appropriate trading price limit as described in Rule 518(c)(4), or cancelled if the Managed Protection Override is enabled.<sup>20</sup>

Example 1B (proposed behavior)<sup>21</sup>

Butterfly Spread: Buy 1 July 50 Call, Sell 2 July 55 Calls, Buy 1 July 60 Call.

Using the same information from Example 1A above, the maximum trading price limit is \$5.10 and the minimum trading price limit is -\$0.10. Under the Exchange's proposal a

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<sup>18</sup> The term "Member" means an individual or organization approved to exercise the trading rights associated with a Trading Permit. Members are deemed "members" under the Exchange Act. See Exchange Rule 100.

<sup>19</sup> See supra note 16.

<sup>20</sup> See Exchange Rule 532(b)(2)(ii).

<sup>21</sup> The Exchange notes that the proposed behavior described in Example 1B is applicable to both the Calendar Spread Variance Price Protection, and the Vertical Spread Variance Price Protection, as the minimum trading price limit for these strategies is also zero minus the pre-set value. See Exchange Rule 532(b)(3)(i) and 532(b)(4)(i), respectively.

sell limit order or an Offer eQuote with a price below the minimum trading price limit submitted to the Exchange will be rejected back to the Member due to being priced below the minimum trading price limit.

The Exchange believes extending price protections to sell limit orders and Offer eQuotes will benefit Members by rejecting interest priced below the minimum trading price limit back to the Member for reevaluation and potential re-submission at a price within the minimum and maximum trading price limits as determined by the Exchange.

The Exchange also proposes to amend subparagraph (iii) of the Calendar Spread Variance (“CSV”) Price Protection.<sup>22</sup> Currently, the first sentence of subparagraph (iii) provides that, “[b]uy orders with a limit price less than the minimum trading price limit will be rejected.” The Exchange proposes to also reject sell limit orders and Offer eQuotes with a limit price less than the minimum trading price limit. As proposed the new sentence will read, “[b]uy orders, sell orders, and Offer eQuotes with a limit price less than the minimum trading price limit will be rejected.” This change provides that the Exchange will not permit orders or eQuotes to be submitted into the System that appear to be erroneously priced because the prices are below the minimum trading price limit established by the Exchange for Calendar Spread strategies.

The Exchange believes extending price protections to sell limit orders and Offer eQuotes will benefit Members by rejecting interest priced below the minimum trading price limit back to the Member for reevaluation and potential re-submission at a price within the minimum and maximum trading price limits as determined by the Exchange.

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<sup>22</sup> See Exchange Rule 532(b)(3).

The Exchange also proposes to amend subparagraph (iii) of the Vertical Spread Variance (“VSV”) Price Protection.<sup>23</sup> Currently, the first sentence of subparagraph (iii) provides that, “[b]uy orders with a limit price less than the minimum trading price limit will be rejected.” The Exchange proposes to also reject sell limit orders and Offer eQuotes with a limit price less than the minimum trading price limit. As proposed the new sentence will read, “[b]uy orders, sell orders, and Offer eQuotes with a limit price less than the minimum trading price limit will be rejected.” This change provides that the Exchange will not permit orders or eQuotes to be submitted into the System that appear to be erroneously priced because the prices are below the minimum trading price limit established by the Exchange for Vertical Spread strategies.

The Exchange believes extending price protections to sell limit orders and Offer eQuotes will benefit Members by rejecting interest priced below the minimum trading price limit back to the Member for reevaluation and potential re-submission at a price within the minimum and maximum trading price limits as determined by the Exchange.

The Exchange also proposes to make a minor non-substantive edit to the rule text of Rule 532(b)(5)(v). Currently, the rule text states that, “[i]f the MSPP is priced less aggressively than the limit price of the complex order (i.e., the MSPP is less than the complex order’s bid price for a buy order, or the MSPP is greater than the complex order’s offer price for a sell order) the order, or if the order is a complex market order, will be (i) executed up to, and including, its MSPP for buy orders; or (ii) executed down to, and including, its MSPP for sell orders. Any unexecuted portion of such a complex order will be canceled.”

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<sup>23</sup> See Exchange Rule 532(b)(4).

The Exchange proposes to remove the phrase “the order” after the parenthetical and to relocate it after the phrase, “or if the order is a complex market order,” to improve the clarity of the rule text. As proposed the rule would state, “[i]f the MSPP is priced less aggressively than the limit price of the complex order (i.e., the MSPP is less than the complex order’s bid price for a buy order, or the MSPP is greater than the complex order’s offer price for a sell order), or if the order is a complex market order, **the order** will be (i) executed up to, and including, its MSPP for buy orders; or (ii) executed down to, and including, its MSPP for sell orders. Any unexecuted portion of such a complex order will be canceled.” This proposed change will not affect the operation of the rule in any fashion.

Additionally, the Exchange proposes to make non-substantive changes to correct paragraph and subparagraph numbering that was erroneously introduced in the Exchange’s Amendment 2<sup>24</sup> of the Exchange’s original filing, SR-MIAX-2021-58.<sup>25</sup> The Exchange now proposes to correct the numbering scheme throughout Rule 532. This proposed change will provide clarity and precision and will not affect the operation of the rule in any fashion.

#### Implementation

The Exchange proposes to implement the proposed rule changes in the third quarter of 2022. The Exchange will announce the implementation date to its Members via Regulatory Circular.

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<sup>24</sup> See Securities Exchange Act Release No. 94353 (March 3, 2022), 87 FR 13339 (March 9, 2022) (SR-MIAX-2021-58).

<sup>25</sup> See Securities Exchange Act Release No. 93676 (November 29, 2021), 86 FR 68695 (December 3, 2021) (SR-MIAX-2021-58).

## 2. Statutory Basis

The Exchange believes that its proposed rule change is consistent with Section 6(b) of the Act<sup>26</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>27</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest.

In particular, the Exchange believes the proposed price protections will protect investors and the public interest and maintain fair and orderly markets by mitigating potential risks associated with market participants entering sell limit orders and Offer eQuotes at clearly unintended prices and trading at prices that are extreme and potentially erroneous. The proposed price protections will assist in the maintenance of a fair and orderly market and protect investors by rejecting limit orders and eQuotes that are priced to sell below the minimum trading limit established by the Exchange for certain complex strategies. The Exchange believes this will promote just and equitable principles of trade and ultimately protect investors. Further, the Exchange notes that its proposal is designed to mitigate the potential risks of executions at prices that are not within acceptable price ranges, as a means to help mitigate potential risks associated with complex strategies

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<sup>26</sup> 15 U.S.C. 78f(b).

<sup>27</sup> 15 U.S.C. 78f(b)(5).

trading at prices that are potentially erroneous or unintended. As such, the proposed rule change is designed to protect investors and the public interest.

The Exchange believes extending current price protections to sell limit orders and Offer eQuotes will protect investors and the public interest and assist the Exchange in maintaining fair and orderly markets by mitigating potential risks associated with market participants entering orders at clearly unintended prices and orders trading at prices that are extreme and potentially erroneous. The Exchange believes rejecting these orders is appropriate as it gives the Member the opportunity to reevaluate their order or eQuote and possibly resubmit the order or eQuote at a price within the minimum and maximum trading price limits for the strategy as established by the Exchange. The Exchange believes this will promote just and equitable principles of trade and ultimately protect investors.

The Exchange believes its proposal to make non-substantive changes to Rule 532(b)(5)(v) to improve the clarity of the rule protects investors and the public interest as having clear and concise rules avoids the potential for confusion and benefits investors. Finally, the Exchange believes its proposal to make non-substantive changes to correct the numbering scheme throughout the rule benefits investors and the public interest by logically and accurately organizing its rule text for clarity and ease of reference. The Exchange believes that the proposed rule change will provide greater clarity to Members and the public regarding the Exchange's Rules, and it is in the public interest for rules to be accurate and concise so as to eliminate the potential for confusion.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

The Exchange does not believe that the proposed rule change to extend existing price protections to sell Orders and Offer eQuotes for certain complex spread strategies will impose any burden on intra-market competition. The proposed rule benefits Members as it will extend price protections that will prevent the execution of certain strategies at prices that are potentially erroneous or unintended. The Exchange believes its proposal may enhance competition as Members that submit complex orders will be assured that the Exchange has risk protections in place to prevent the inadvertent execution of certain complex spread strategies at potentially erroneous or unintended prices. Further, the Exchange does not believe the proposed change will impose a burden on intra-market competition as the protection is available to all Members on the Exchange.

The Exchange does not believe that the proposed rule change will impose any burden on inter-market competition as the proposal is not competitive in nature, but rather seeks to extend existing price protections for certain complex order strategies. Alternatively, the Exchange's proposal could enhance competition among the various markets for complex order execution, potentially resulting in more active complex order trading on all exchanges. The Exchange notes that other exchanges have comparable price protections in place for certain complex strategies.<sup>28</sup>

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<sup>28</sup> See e.g., Cboe Exchange Rule 5.34(b)(3)(A); see also Nasdaq Phlx Exchange Rule, Options 3, Section 16(c)(i).

The Exchange does not believe that the proposal to make non-substantive changes to rule 532(b)(5)(v) imposes any burden on intra-market or inter-market competition as the proposed changes add clarity and precision to the rule text and does [sic] not change the operation of the rule in any way. Additionally, the Exchange does not believe that the proposal to make non-substantive changes to Rule 532 to correct paragraph and subparagraph numbering imposes any burden on intra-market or inter-market competition as the proposed changes do not change the operation of the rule in any way and simply provides accuracy in the numbering convention used within the Exchange's Rules.

For the reasons stated, the Exchange does not believe that the proposed rule changes will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act, and the Exchange believes that the proposed rule changes may enhance competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant

to Section 19(b)(3)(A)(iii) of the Act<sup>29</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>30</sup>

A proposed rule change filed under Rule 19b-4(f)(6)<sup>31</sup> normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),<sup>32</sup> the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay. The Exchange states that waiver of the operative delay will allow the Exchange to immediately extend the Butterfly Spread Variance Price Protection, the Calendar Spread Variance Price Protection, and the Vertical Spread Variance Price Protection to sell limit orders and Offer eQuotes, as described above, which could help to protect market participants from executing orders in these strategies at potentially erroneous or unwanted prices. In addition, waiver of the operative delay will allow the Exchange to immediately implement the proposed non-substantive changes to clarify the text of Exchange Rule 532(b)(5)(v) and to correct rule numbering errors in Exchange Rule 532. The Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest. The Commission believes that extending the Butterfly Spread Variance Price Protection, the Calendar Spread Variance Price Protection, and the Vertical Spread

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<sup>29</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>30</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

<sup>31</sup> 17 CFR 240.19b-4(f)(6).

<sup>32</sup> 17 CFR 240.19b-4(f)(6)(iii).

Variance Price Protection to sell limit orders and Offer eQuotes could help to protect market participants from executing orders in these strategies at potentially erroneous prices. In addition, the non-substantive changes to clarify the text of Exchange Rule 532(b)(5)(v) and to correct rule numbering errors in Exchange Rule 532 will help to ensure the clarity and accuracy of these rules. Accordingly, the Commission waives the operative delay and designates the proposed rule change operative upon filing.<sup>33</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-MIAX-2022-25 on the subject line.

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<sup>33</sup> For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange

Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-MIAX-2022-25. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-MIAX-2022-25, and should be submitted on or before **[INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>34</sup>

**J. Matthew DeLesDernier,**

*Assistant Secretary.*

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<sup>34</sup> 17 CFR 200.30-3(a)(12).